

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature			Date	

INKSTER HOUSING COMMISSION

Financial Statements

December 31, 2003

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

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John C. DiPiero, P.C.

Certified Public Accountant

P. O. Box 378
Hemlock, Michigan 48626
Phone/Fax 989-642-2092

Board of Commissioners
Inkster Housing Commission
4500 Inkster Road
Inkster, Michigan 48141

Independent Auditor's Report

I have audited the financial statements listed in the Table of Contents of the Inkster Housing Commission as of and for the year ended December 31, 2003. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Inkster Housing Commission as of December 31, 2003, and the results of its operations and the cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated August 27, 2004, on my consideration of the Inkster Housing Commission's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, if fairly stated in all material respects in relation to the financial statements taken as whole.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Certified Public Accountant

August 27, 2004

INKSTER HOUSING COMMISSION

Combined Balance Sheet
December 31, 2003

ASSETS

C-3015

CURRENT ASSETS

Cash	\$ 882,325
Accounts Receivable (Net)	11,325
Accounts Receivable- HUD	407,312
Prepaid Expenses	125,224
Inter Program due from	<u>589,684</u>

Total Current Assets \$ 2,015,870

NON CURRENT ASSETS

Land	\$ 1,891,187
Buildings	21,800,988
Furniture, Equipment- Dwellings	318,279
Furniture, Equipment- Administrative	585,567
Leasehold Improvements	6,376,822
Accumulated Depreciation	<u>(21,170,575)</u>

Total Non Current Assets 9,802,268

TOTAL ASSETS \$ 11,818,138

INKSTER HOUSING COMMISSION
Combined Balance Sheet
December 31, 2003

LIABILITIES & EQUITY

C-3015

LIABILITIES:

CURRENT LIABILITIES

Accounts Payable	\$ 145,253
Accrued Liabilities	233,442
Tenants Security Deposit	105,786
Accounts Payable- Other Governments	29,781
Deferred Revenue	265,295
Inter-Program due to	<u>589,684</u>

Total Current Liabilities \$ 1,369,241

NON CURRENT LIABILITIES

Compensated Absences 106,984

Total Liabilities \$ 1,476,225

EQUITY:

Contributed Capital	\$ 5,587,627
Retained Earnings	<u>4,744,656</u>

Total Equity \$ 10,341,913

TOTAL LIABILITIES & EQUITY \$ 11,818,138

The Accompanying Footnotes are an Integral Part of the Financial Statements.

INKSTER HOUSING COMMISSION
Combined Statement of Income and Expenses
For the year ended December 31, 2003

REVENUE

Tenant Rental Revenue	\$ 956,796	
Tenant Revenue-Other	58,097	
HUD Grants	5,902,860	
Interest Income	4,858	
Other Income	<u>47,195</u>	
<u>Total Revenue</u>		\$ 6,969,806

EXPENSES

Administrative	\$ 1,209,935	
Tenant Services	99,398	
Utility Expenses	668,508	
Ordinary Maintenance	2,178,963	
Protective Services	201,217	
General Expenses	<u>458,585</u>	
<u>Total Expenses</u>		<u>4,816,606</u>

Excess (Deficiency) of Revenues over Expenses \$ 2,153,200

OTHER DEDUCTIONS

Housing Assistance Payments	\$ 1,165,132	
Extra Ordinary Maintenance	79,334	
Casualty Losses (proceeds)	(91,420)	
Depreciation Expenses	<u>478,767</u>	
<u>Total Other Deductions</u>		<u>1,631,813</u>

NET PROFIT (LOSS) \$ 521,387

The Accompanying Footnotes are an Integral Part of the Financial Statements.

INKSTER HOUSING COMMISSION
Combined Statement of Cash Flows
For the Year Ended December 31, 2003

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 1,037,100
Payments to Suppliers	(4,918,973)
Payments to Employees	(1,018,040)
HUD Grants	5,902,860
Other Receipts (Payments)	<u>52,053</u>
Net Cash Provided (Used) by Operating Activities	\$ 1,055,000

CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES

Purchases of Capital Assets	<u>(1,080,276)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (25,276)
Balance- Beginning of Year	<u>907,601</u>
Balance- End of Year	\$ <u>882,325</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Net Profit or (Loss)	\$ 521,387
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	478,767
Changes in Assets (Increase) Decrease:	
Receivables (Net)	19,459
Investments	129,329
Prepaid Expenses	5,721
Interfund Due From	(165,274)
Changes in Liabilities Increase (Decrease):	
Accounts Payable	(216,795)
Accrued Liabilities	35,037
Security Deposits	4,928
Accounts Payable- Other Governments	(1,317)
Deferred Revenue	78,484
Interfund Due To	<u>165,274</u>
Net Cash Provided by Operating Activities	\$ <u>1,055,000</u>

The Accompanying Notes are an Integral part of the Financial Statements

INKSTER HOUSING COMMISSION
Combined Statement of Changes in Fund Balance
For the Year Ended December 31, 2003

Contributed Capital

Balance at Beginning of Year	\$ 5,737,341
Depreciation Add Back	(175,394)
Prior Period Adjustment:	
Adjustment to fixed assets	<u>(25,680)</u>
 Contributed Capital- End of Year	 \$ <u>5,587,627</u>

Undesignated Fund Balance

Balance at Beginning of Year	\$ 4,053,061
Depreciation Add Back	174,394
Net Income (Loss)	521,387
Prior Period Adjustments; Miscellaneous	<u>(4,186)</u>
 Undesignated Fund Balance- End of Year	 \$ <u>4,744,656</u>

The Accompanying Footnotes are an Integral Part of the Financial Statements.

INKSTER HOUSING COMMISSION
Notes to Financial Statements
December 31, 2003

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity-

Inkster Housing Commission, Inkster, Michigan, (Commission) was created by ordinance of the city of Inkster. The Commission signed and Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 27-1-6	Low rent program	821 units
MI 28-V027	Section 8 Vouchers	240 units

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above, there are no component units.

These criteria were considered in determining the reporting entity.

Basis of Presentation-

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Notes to Financial Statements- continued

Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1998, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1998, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989.

Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

Assets, Liabilities, and Net Assets-

Deposits & Investments

Deposits & investments are stated at cost which approximates market value.

Notes to Financial Statements- continued

Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

Due to/From Other Funds

During the course of operations, numerous transactions occur between individual funds for goods or services; these receivables and payables are classified as "due from" or "due to" other funds on the Balance Sheet.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and undesignated fund balance components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	27.5 years
Equipment	3-10 years

Compensated Absences

Compensated absences are for unused vacation days, personal leave days, and accumulated compensation time, based on total accumulation of time at current rates of compensation. Financial Accounting Standards Board (FASB) # 43 establishes proper generally accepted accounting principles (GAAP) concerning such accruals. The following criteria must be met:

- 1) Employee's right to compensation is attributable to past performance.
- 2) The right to compensation is vested or accumulates.
- 3) It is probable that the compensation will be paid.
- 4) The amount is reasonably estimable.

The Commission accrued a percentage of the above based on an analysis of past retirements and current potential using the above criteria.

The estimated portion of the liability for vested leave benefits attributable to the Commission is recorded as an expenditure and liability in each of the respective programs.

Notes to Financial Statements- continued

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

General Fund Checking Accounts	\$ 453,294
Petty Cash	250
Money Market Accounts	93,106
Reclassified Investments, below	<u>335,675</u>
Financial Statement Total	\$ <u>882,325</u>

Investments:

Certificates of Deposit	\$ 204,382
Savings Account	131,293
Reclassified as Cash Equivalent, above	<u>(335,675)</u>
Financial Statement Total	\$ <u>0</u>

Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	<u>Categories</u>			<u>Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Cash:					
Checking					
A/C's	\$ 453,294	\$	\$	\$ 453,294	\$ 453,294
Petty Cash	250			250	250
Money market	224,399			224,399	224,399
Certificates of Deposit	<u>204,382</u>	<u></u>	<u></u>	<u>204,382</u>	<u>204,382</u>
Total Cash	\$ <u>882,325</u>	\$ <u></u>	\$ <u></u>	\$ <u>882,325</u>	\$ <u>882,325</u>

Note 3: Accounts Receivable

Accounts Receivable (net) consist of the following:

Accounts Receivable- Tenants	\$ 21,645
Less- Allowance for Doubtful Accounts	(11,161)
Accounts Receivable- Miscellaneous	<u>841</u>
Accounts Receivable (net)	\$ <u>11,325</u>

Notes to Financial Statements, continued

Note 4: Prepaid Expenses

Prepaid Expenses consist of insurance premiums covering assets beyond the date of this audit, and health benefits paid for coverage after year end. The following represents prepaid expenses:

Prepaid Insurance Expense	\$ <u>125,224</u>
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Note 5: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Land	\$ 1,891,187	\$	\$	\$ 1,891,187
Buildings	21,800,988			21,800,988
Furniture & Equipment-Dwellings	318,279			318,279
Furniture & Equipment-Admin	527,880	57,687		585,567
Leasehold Improvements	<u>5,354,233</u>	<u>1,022,589</u>		<u>6,376,822</u>
	\$29,892,567	\$1,080,276	\$	\$30,972,843
Less Accumulated Depreciation	<u>20,659,802</u>	<u>510,773</u>		<u>21,170,575</u>
	\$ <u>9,232,765</u>	\$ <u>569,503</u>	\$	\$ <u>9,802,268</u>

Depreciation addition consist of current year additions, \$ 478,767, and a prior year correction of \$ 32,006.

Note 6: Accrued Liabilities

Accrued liabilities consist of the following:

Accrued wages and payroll taxes	\$ 13,072
Accrued utilities	183,679
Accrued Compensated Absences-current	35,661
Accrued liabilities- miscellaneous	<u>1,030</u>
Total Accrued Liabilities	\$ <u>233,442</u>

Note 7: Retirement.

The Commission has a non mandatory, Defined Benefit Plan (Plan), for all eligible employees. The Plan calls for a 3% of annual wage contribution by all participants. Eligibility requirements are as follows: Full time employees, one year service. Plan assets and funding statistics are reported under a separate audit report.

Notes to Financial Statements- continued

Note 8: HUD Guaranteed Debt and Contributed Capital.

HUD guaranteed debt has been reclassified to Contributed Capital for all years ending after September 30, 1998. The reclassification is a result of all HUD programs converting from a basis of accounting prescribed by HUD other than Generally Accepted Accounting Principles (GAAP), to GAAP.

The following represents the Original Capital Contribution as a result of the above, as of December 31, 1999:

HUD Held Notes	\$ 1,509,768
HUD Guaranteed Bonds	730,000
PHA Contributed Capital	6,526,385

The initial contributed capital is reduced annually by the depreciation expense as an add back.

Note 9 :Segment Information for Enterprise Funds.

The Commission maintains an enterprise fund; segment information for the year ended December 30, 2003, is as follows:

Operating Revenue	\$ 6,969,806
operating Income	2,153,200
Non Operating Revenue (Expenses)	
Casualty Insurance Proceeds	91,420
Extra Ordinary Maintenance	(79,334)
Depreciation Expense	(478,767)
Housing Assistance Payments	(1,165,132)
Net Profit (Loss)	(521,387)
Non Current Assets (net)	9,802,268
Total Assets	11,818,138
Retained Earnings	4,744,656

Note 10:Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 64,684,550
General Liability	5,000,000
Errors & Omissions	1,000,000
Automobile	300,000
Worker's Compensation and other riders:	
Coverage's required by the State of Michigan	

Notes to Financial Statements- continued

Note 11 Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 12:Combining Financial Data Schedules.

The totals in the combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

INKSTER HOUSING COMMISSION
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2003

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Direct Programs:

	<u>Annual Program Expenditures</u>
* <u>CFDA 14.850 Public and Indian Housing</u>	
C-3015 Operating Subsidies	\$ <u>2,668,205</u>
* <u>CFDA 14.156 Housing Assistance Programs</u>	
C-3099V Section 8 Rental Vouchers	\$ <u>1,335,257</u>
<u>CFDA 14.854 Other Grants</u>	
C-3029 Drug Elimination Grant	\$ <u>53,668</u>
<u>CFDA 14.851 Resident Opportunity Supportive Service</u>	
C-3029 Resident Supportive Services	\$ <u>29,204</u>
* <u>CFDA 14.872 Capital Funds Projects</u>	
C-3029 Capital Funds Projects	\$ <u>1,816,526</u>
	\$ <u>5,902,860</u>

*Connotes Major Program Category

Significant Account Policies

The accounting policies of the Commission conform to generally accepted accounting principles as applicable to governmental proprietary funds. The financial statements contained in the Commission's annual audit report are prepared on the accrual basis of accounting; revenues are recognized when earned, expenses are recorded when the related services or product are received.

Risk management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 64,684,550
General Liability	5,000,000
Errors & Omissions	1,000,000
Automobile Liability	300,000
Dishonesty Bond	30,000
Worker's Compensation and other riders: minimum coverage's required by the State of Michigan	

INKSTER HOUSING COMMISSION
Status of Prior Audit Findings
December 31, 2003

The prior audit of the Inkster Housing Commission for the period ended December 31, 2002, contained two audit findings; the following represents the corrective action taken by the Commission:

Finding 99-4

Excess Vacancies.

The Commission's vacancy level has been reduced to a reasonable level.

Finding 02-1

MTCS Deficiencies.

The current reporting level is 90 % which is an acceptable level.

INKSTER HOUSING COMMISSION
Report on Compliance Applicable with Requirements to
Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133
December 31, 2003

Compliance

I have audited the compliance of Inkster Housing Commission with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2003. Inkster Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Inkster Housing Commission's management. My responsibility is to express an opinion on Inkster Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Inkster Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Inkster Housing Commission's compliance with those requirements.

As described in the following findings in the accompanying schedule of findings and questioned costs, the Commission failed to comply with one or more of the following compliance requirements: Activities allowed or unallowed, Allowable Costs/cost Principles, Cash Management, Davis-Bacon Act, Eligibility, Procurement, Reporting, or other compliance matters. Compliance with such requirements is necessary, in my opinion, for the Commission to comply with the requirements applicable to that program. The following programs, findings and compliance matters are detailed in the schedule of findings and questioned cost:

<u>Finding</u>	<u>Audit Number</u>	<u>Compliance Requirements</u>
Tenant Accounting Discrepancies	03-1	Program Income, Activities Allowed or Allowable.

In my opinion, except for the noncompliance described in the preceding paragraph, the Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2003.

Internal Control over Compliance

The management of Inkster Housing Commission entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Inkster Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

I noted certain matters involving the internal control over compliance and its operation that I considered to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgement, could adversely affect the Commission's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as referred to above.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that none of the reportable conditions described above is a material weakness.

This report is intended for the information of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

August 27, 2004

INKSTER HOUSING COMMISSION
Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards
December 31, 2003

I have audited the financial statements of Inkster Housing Commission, Inkster, Michigan, as of and for the year ended December 31, 2003, and have issued my report thereon dated August 27, 2004. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Inkster Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards; see the findings and questioned cost section of this audit report.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Inkster Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted instances which may be considered weaknesses that are required to be reported under Government Auditing Standards; see the findings and questioned cost section of this audit report.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Certified Public Accountant

August 27, 2004

INKSTER HOUSING COMMISSION
Schedule of Findings and Questioned Cost
December 31, 2003

Summary of Auditor's Results:

<u>Programs:</u>	<u>Major Program</u>	<u>Non Major Program</u>
Low income Public Housing	X	
Housing Assistance Programs	X	
Capital Projects Funds	X	
Supportive Services:		
Resident Supportive Services;		
Training Assistance		X
Drug Elimination Grants		X

Opinions:

General Purpose Financial Statements-

Unqualified

Material weakness(es) noted Yes X No

Reportable condition(s) noted Yes X No

Non Compliance material to financial statements noted Yes X No

Report on compliance for Federal programs-

Qualified

Material weakness(es) noted Yes X No

Reportable condition(s) noted X Yes No

Non Compliance material to financial statements noted Yes X No

Thresholds:

Dollar limit used to determine type A & B programs- \$ 300,000

The Auditee did qualify as a low risk auditee.

Schedule of Findings and Questioned Cost- continued

<u>Name of Federal Program</u>	<u>Major Program</u>	<u>Questioned Costs</u>	<u>Audit Finding Number</u>
Low Rent Public Housing	Yes		03-1
Housing Assistance Programs	Yes		
Capital Projects Funds	Yes		
Drug Elimination Grant	No		
Supportive Services	No		

Schedule of Findings, Recommendations and Replies
December 31, 2003

The following finding of the Inkster Housing Commission, for the year ended December 31, 2003, were discussed with the Director, Mr. Tony Love, in an exit interview conducted August 27, 2004.

Finding 03-1: Tenant Accounting Discrepancies

The review of tenant files revealed the following discrepancies:

Low Rent Public Housing, 23 files tested:

- 8 lacked printed copies of the HUD form 50058; we were unable to test other attributes like income calculations, re-examinations, etc., on those files.
- 2 files lacked third party income verifications.
- 20 files did not have a rent choice forms signed by the tenant.

Section 8, 9 files tested:

- 1 file used the wrong income in the rent calculation.

Recommendation

The files tested above are from the 2003 audit period; many of the discrepancies have already been addressed. HUD conducted a Rental Integrity Monitoring Review (RIM) in September 2003; their review revealed similar errors.

I recommend the Commission correct the findings above and continue to monitor the tenant accounting area to insure compliance.

Reply

Low Rent Public Housing:

Inkster Housing Commission experienced computer problem in printing computer generated HUD form 50058 for a period of time. Upon staff giving notification to management of the problem the Director of Finance contracted the Emphasys Computer Systems and the Technical Service Department corrected the systematic Problem.

Management will manually generate HUD form 50058 for the eight files and all other affected files. The data that is contained within the file will be used to create a manually generated HUD form 50058 with correspondence time lines.

Inkster Housing Commission Management will obtain missing income verification and place in files. Currently, new procedures have been established using the "Up Front Verification" procedures and a staff person has been assigned to request and receive income verifications for all residents of public housing to ensure that all efforts all make to receive Third Party Income Verifications before any other acceptable income request is used by staff.

Inkster Housing Commission was cited for not have signed rent choice forms in resident files during the 2003 Rental Integrity Monitoring Review in September 2003. Staff established the rent choice form for resident signatures in October 2003 and the rent choice forms are currently being used for all annual reviews and initial move ins.

Section 8 Program:

This family have been notified of the error (02/03-01/04) and will be refunded the over payment in the amount of \$ 2,201. The Section 8 Management is required to perform quality control on files to prevent such errors from occurring. Inkster Housing Commission will monitor files to insure compliance.